

Internal Revenue Service

Department of the Treasury

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7/9/97

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Telephone Number:

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Date:

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Employer Identification Number:

Key District:

Dear Applicant:

We have considered your application for recognition of exemption as an organization described in section 501(c)(6) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

FACTS

You were formed on November 18, 1992, under the laws of [REDACTED]. On July 7, 1994, you submitted your application for recognition of exemption under section 501(c)(6) of the Code.

Article III of your Articles of Incorporation provides that "the general purposes for which the organization is organized are for the formation of a network of health care providers. . . ." Article XI provides that "all physicians who hold an effective and non-suspended 'PPO Physician Agreement' with the Corporation and who are current with their membership dues are members of the Corporation."

The members of the Corporation elect your twelve member Board of Directors. The fact sheet enclosed with your application states that you are "a self-funded preferred physician organization under contract with the [REDACTED] serving employees [REDACTED]"

In 1992 representatives of [REDACTED] decided to form a partnership or coalition through which they could obtain health insurance for their employees. By their sheer numbers, they felt that they would be able to secure lower rates. After investigating existing health plans, they decided to piece together their own health care plan. They were able to secure each component (utilization, claims processing, administration, etc.) except the physicians. They found out that there was no available independent physician network. The Coalition met with a few physicians to discuss medical care. The discussions and number of physicians

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[REDACTED]

involved started to expand and you began to take shape. A corporation was formed and the network created. Several local physicians dedicated their time, funds, and work. By October 1992, you were in place and the [REDACTED] was initiated. You do not belong to [REDACTED]. The [REDACTED] is simply the first of many clients that you hope to contract with.

You have 301 physician members. You are supported by membership dues and a small administrative fee from the [REDACTED]. All dues collected from the membership are directed toward operational expenses, an office manager's network, a clearinghouse for all managed care programs, and the development of new contracts. As you stated, "By paying these dues (\$200 per year), Endeavor physicians are investing in the future of a physician network that is physician owned and controlled."

Your physician-members must sign a PPO Physician Agreement. You provide the following services and benefits to your physician-members: utilization and quality review, increased patient load, patient advocacy, patient satisfaction, patient data analysis, exposure, camaraderie, office manager training, quarterly newsletter, office manager's network, and physician involvement in the association.

ANALYSIS

Section 501(c)(6) of the Internal Revenue Code exempts from federal income tax business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common

business interest, even though all of its income is devoted to the purpose stated. A stock or commodity exchange is not a business league, a chamber of commerce, or a board of trade within the meaning of section 501(c)(6) and is not exempt from tax. Organizations otherwise exempt from tax under this section are taxable upon their unrelated business taxable income.

As indicated in section 1.501(c)(6) of the Regulations, an organization exempt under section 501(c)(6) must engage in activities that promote one or more lines of business. If an organization's membership is restricted to a particular subset of individual businesses within an industry, it does not qualify for exemption under section 501(c)(6) of the Code. See National Muffler Dealers Association v. U.S., 440 U.S. 472 (1979). In that case the Supreme Court affirmed the Service's position that an association of dealers in a particular brand of muffler was not exempt under section 501(c)(6) because it was not engaged in the improvement of business conditions in a line of business.

Rev. Rul. 86-98, 1986-2 C.B. 74, provides that an individual practice association does not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code. Membership in the organization was restricted to physicians who were subject to a written service contract. The Service determined that the organization operated in a manner similar to an organization carried on for profit, and that its primary beneficiaries were its member-physicians. In addition, because the organization provided an economy or convenience to its members relating to the operation of their private medical practices, the organization was primarily performing particular services for its members. Therefore, the organization was not exempt from federal income tax under section 501(c)(3) of the Code.

Like the organization described in Rev. Rul. 86-98, you are operated to provide particular services to your members and not to improve the general business conditions in the medical profession as required under section 1.501(c)(6)-1 of the Regulations.

Your membership is restricted to physicians who have entered into agreements with you to be providers in accordance with the terms of agreements that you negotiate. This restricts your membership to a narrow segment of medical care providers. Therefore, even if you otherwise satisfied the requirements of section 501(c)(6), you would not be entitled to exemption because you are not engaged in the improvement of business conditions in a line of business. See National Muffler Dealers Association v. U.S., cited and summarized above.

[REDACTED]

Accordingly, you do not qualify for exemption from federal income tax under 501(c)(6) of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under the Conference and Practice Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director, Baltimore, Maryland, which is your key district for exempt organization matters. Thereafter, any questions about your federal tax status or the filing of returns should be addressed to that office. If you want the matter reopened at a later time, you must pay a new user fee as provided in the current user fee revenue procedure.

Sincerely yours,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

	Initiator	Reviewer	Reviewer	Reviewer
Code	[REDACTED]			
Surname	[REDACTED]			
Date	05-20-77	By [REDACTED]		

5/20/77